



AmInvestment Bank

Company report

APEX HEALTHCARE

(APEX MK EQUITY, APER.KL)

21 May 2021

Weaker demand in 1QFY21

BUY

(Maintained)

AmInvestment Bank

www.amequities.com.my

03-2036 2290

Rationale for report: Company results

Price	RM2.90
Fair Value	RM3.33
52-week High/Low	RM4.55/RM2.68

Key Changes

Fair value	⬇️
EPS	⬇️

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	698.8	744.4	811.7	847.6
Core net profit (RM mil)	54.8	50.1	68.8	71.8
FD Core EPS (Sen)	11.5	10.5	14.5	15.1
FD Core EPS growth (%)	10.2	(8.6)	37.5	4.3
Consensus Net Profit (RM mil)	-	59.9	65.5	69.6
DPS (Sen)	3.7	3.5	4.8	5.0
PE (x)	25.1	27.5	20.0	19.2
EV/EBITDA (x)	15.6	18.4	14.0	13.0
Div yield (%)	1.3	1.2	1.6	1.7
ROE (%)	12.5	10.5	13.1	12.6
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	469.2
Market Cap (RM mil)	1,360.7
Book Value (RM/share)	0.99
P/BV (x)	2.9
ROE (%)	12.5
Net Gearing (%)	-
Major Shareholders	Apex Pharmacy Holdings Sdn Bhd (0.4%) Washington H. Soul Pattinson and Company Ltd. (0.3%)
Free Float	92.0
Avg Daily Value (RM mil)	0.2

Price performance	3mth	6mth	12mth
Absolute (%)	(13.9)	(21.4)	-
Relative (%)	(13.4)	(20.5)	(8.9)



Investment Highlights

- We maintain our BUY call on Apex Healthcare (Apex) with a lower fair value (FV) of RM3.33/share (vs. RM3.77/share previously) based on a lowered PER of 23x FY22F EPS. We make no ESG-related price adjustment for our rating of 3 stars.
- We reduce our PER to 23x from 26x as we no longer believe that Apex is poised to benefit in any significant means from the logistical support to the national vaccination programme.
- Apex's 1QFY21 net profit of RM11.9mil came in below expectations. It accounted for 20% of our and consensus full-year earnings forecasts. This was attributed to poor local pharmaceutical demand and export sales. Additionally, weaker demand for prosthetics and surgical equipment has likewise impacted STRAITS, the group's contract-manufacturing arm.
- Thus, we lower our FY21F earnings forecast by 17% to take the aforementioned issues into consideration. Our FY22F/FY23F forecasts remain unchanged.
- Going forward, recovery prospects in 2HFY21 are dampened, following the high number of Covid-19 cases pushing down global clinical pharmaceutical and surgical demand.
- However, we are still optimistic of a solid FY22F, predicated on a more stable recovery in patient volumes as the effects of the vaccination process finally begin to take place. Additionally, we believe that pent-up demand from non-urgent cases will benefit all three of the group's main divisions.
- On a QoQ basis, the group saw a recovery in revenue, boasting an 11% increase to RM179.5mil in 1QFY21. The group experienced a 7% decrease YoY, though this is due to base effects from supernormal profits brought by the pandemic-induced heightened demand last year.
- The group experienced a fall in PBT by 14% YoY and 16% QoQ in 1QFY21, largely as result of lower contributions by its associate company, STRAITS. This is due to lower sales revenue and higher operating expenses arising from new production capacity committed before the pandemic.
- All three of the group's segments experienced a drop in revenue and earnings on a YoY basis in 1QFY21. While the group saw an improvement in its manufacturing and wholesale arms on a QoQ basis, weak profit contribution from its corporate segment weighed on earnings.

- The group did not announce any dividend for the quarter.

EXHIBIT 1: QUARTERLY RESULTS

FYE Dec (RM mil)	1QFY20	2QFY20	3QFY20	4FYQ20	1QFY21	QoQ	YoY
Revenue	193.3	174.7	169.1	161.6	179.5	11%	-7%
Gross Profit	43.7	37.6	35.2	31.7	37.8	19%	-14%
EBITDA	21.1	18.9	19.6	18.6	19.4	4%	-8%
EBIT	17.1	14.9	15.7	14.8	15.3	3%	-10%
Share of associates	1.1	1.7	2.0	3.9	0.3	-91%	-69%
Profit Before Tax	17.9	16.3	17.5	18.4	15.4	-16%	-14%
Tax	-3.6	-3.4	-3.1	-4.0	-3.6	-12%	-1%
Net Profit	14.3	12.8	14.5	14.4	11.9	-17%	-17%
Core Net Profit	14.1	12.1	14.0	14.5	11.9	-18%	-16%
FD EPS (sen)	3.0	2.5	3.0	3.0	2.5	-18%	-16%
Gross DPS (sen)	0.0	1.7	0.0	2.8	0.0		
Gross margin	22.6%	21.5%	20.8%	19.6%	21.0%	7%	-7%
EBITDA margin	10.9%	10.8%	11.6%	11.5%	10.8%	-6%	-1%
PBT margin	9.3%	9.4%	10.3%	11.4%	8.6%	-24%	-7%
Core net profit margin	7.3%	6.9%	8.3%	9.0%	6.6%	-26%	-10%
Segmental Revenue							
Manufacturing	12.1	13.5	12.3	9.6	15.1	57%	25%
Wholesale & Distribution	179.6	160.8	156.6	151.8	164.3	8%	-9%
Corporate	1.5	0.4	0.1	0.1	0.1	2%	-91%
Segmental PBT							
Manufacturing	11.3	6.4	8.4	8.2	9.1	11%	-20%
Wholesale & Distribution	9.2	9.7	8.4	6.5	7.5	14%	-19%
Corporate	-1.8	0.9	1.3	4.2	-0.5	-113%	-70%

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART



EXHIBIT 4: ESG MATRIX

Overall	★	★	★		
Waste management	★	★	★		
Natural resource conservation	★	★			
Occupational safety + health	★	★	★	★	
Workplace diversity	★	★	★		
Employee training + wellbeing	★	★	★		
Quality assurance + safety	★	★	★	★	
Communal efforts	★	★	★		
Corruption-free pledge	★	★	★		
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmlInvestment Bank Bhd

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	688.8	698.8	744.4	811.7	847.6
EBITDA	73.5	77.9	71.6	92.3	96.7
Depreciation	(16.1)	(16.5)	(14.7)	(15.1)	(15.4)
Operating income (EBIT)	57.4	61.4	56.9	77.3	81.3
Other income & associates	7.7	8.7	7.2	7.3	7.5
Net interest	(1.6)	(1.1)	(1.2)	(1.2)	(1.2)
Exceptional items	2.8	1.3	1.0	(0.2)	-
Pretax profit	66.3	70.2	63.9	83.2	87.6
Taxation	(13.6)	(14.2)	(12.8)	(14.6)	(15.8)
Minorities/pref dividends	-	-	-	-	-
Net profit	52.7	56.0	51.1	68.6	71.8
Core net profit	49.6	54.8	50.1	68.8	71.8
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	176.1	176.9	173.4	166.8	160.3
Intangible assets	1.7	1.4	1.4	1.4	1.4
Other long-term assets	36.5	45.2	52.4	59.8	67.3
Total non-current assets	214.2	223.5	227.2	228.0	228.9
Cash & equivalent	120.4	172.9	74.5	105.0	129.3
Stock	86.5	92.1	96.7	104.3	108.6
Trade debtors	159.4	129.3	163.2	175.7	184.7
Other current assets	2.7	3.1	109.7	116.5	123.3
Total current assets	368.9	397.4	444.1	501.6	545.8
Trade creditors	120.1	117.7	128.8	136.1	143.2
Short-term borrowings	6.8	22.0	22.0	22.0	22.0
Other current liabilities	1.4	1.5	1.5	1.5	1.5
Total current liabilities	128.3	141.1	152.2	159.5	166.6
Long-term borrowings	23.4	5.8	10.8	15.8	5.8
Other long-term liabilities	5.9	6.0	6.0	6.0	6.0
Total long-term liabilities	29.4	11.8	16.8	21.8	11.8
Shareholders' funds	425.1	467.8	502.1	548.0	596.2
Minority interests	0.5	0.1	0.1	0.1	0.1
BV/share (RM)	0.90	0.99	1.06	1.15	1.26
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	66.3	70.2	63.9	83.2	87.6
Depreciation	15.7	16.5	14.3	14.7	15.0
Net change in working capital	0.5	20.5	(27.4)	(12.8)	(6.2)
Others	(14.4)	(21.7)	(17.9)	(19.5)	(21.2)
Cash flow from operations	68.1	85.4	33.0	65.5	75.2
Capital expenditure	(14.5)	(15.9)	(14.0)	(14.0)	(14.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(8.5)	(37.3)	(2.0)	(2.0)	(2.0)
Cash flow from investing	(23.0)	(53.1)	(16.0)	(16.0)	(16.0)
Debt raised/(repaid)	(5.8)	(2.9)	5.0	5.0	(10.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(16.3)	(17.5)	(16.9)	(22.7)	(23.7)
Others	5.9	1.6	(1.3)	(1.3)	(1.3)
Cash flow from financing	(16.1)	(18.8)	(13.2)	(19.0)	(35.0)
Net cash flow	29.1	13.5	3.8	30.6	24.2
Net cash/(debt) b/f	64.2	93.6	107.0	110.9	141.4
Net cash/(debt) c/f	93.4	107.0	110.9	141.4	165.7
Key Ratios (YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	5.5	1.5	6.5	9.0	4.4
EBITDA growth (%)	5.9	5.9	(8.1)	29.0	4.7
Pretax margin (%)	9.6	10.0	8.6	10.3	10.3
Net profit margin (%)	7.7	8.0	6.9	8.5	8.5
Interest cover (x)	36.2	53.6	48.7	64.9	66.9
Effective tax rate (%)	20.4	20.2	20.0	17.5	18.0
Dividend payout (%)	30.8	31.3	33.0	33.0	33.0
Debtors turnover (days)	85	75	72	76	78
Stock turnover (days)	45	47	46	45	46
Creditors turnover (days)	63	62	60	60	60

Source: Company, AmlInvestment Bank Bhd estimates

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